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C O N F I D E N T I A L SECTION 01 OF 03 TEGUCIGALPA 001847

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TAGS: EMIN ECON PGOV PREL HO  
SUBJECT: A REQUIEM FOR MINING IN HONDURAS

REF: A. (A) TEGUCIGALPA 697

B. (B) TEGUCIGALPA 1013

Classified By: AMB Charles Ford for reasons 1.4 (b) and (d).

11. (C) Summary. Reforms of the new mining law in Honduras have reached a critical period of discussion in the Honduran National Assembly. An extreme-leftist group formed of politicians from the Union Democratica (UD) Party, certain NGOs, and the renegade Archbishop Luis Alfonso Santos of Copan, has poisoned the national dialogue, drawing the debate away from improving environmental standards and enforcement, toward banning all mining in Honduras. President Zelaya has publicly voiced his agreement with banning open-pit mining several times over the past six months. The president of the National Assembly commission on mining and the mining companies all believe that the measures the political left promote ) including banning open-pit mining for gold and silver and eliminating all tax breaks meant to alleviate depreciation expenditures - will be incorporated into a revised mining law, effectively killing the prospect of new investment in the Honduran mining sector. Paradoxically, reforms spurred by a desire to ensure environmental protection could in fact cause more environmental damage by reducing international investment in mining and fomenting local artisanal mining using mercury. End summary.

12. (U) As explained in Ref B, a six year-old debate over reforming the Honduran mining law was effectively closed in November 2005. In a surprising show of unity, representatives of the Catholic Church and civil society, the private mining companies, and the federal mining regulator (DEFOMIN) agreed on reforms including mandating companies conduct broad community consultation before obtaining a concession for exploitation, a modified tax structure for companies, doubling the royalty tax paid to communities from 1 to 2 percent, and new guidelines for areas not open to mining. The reforms were set to pass in the National Assembly in November 2005 but were shelved until after the November 26 Presidential elections. Although the original parties to the agreement preferred to have the National Assembly vote on the reforms in their November 2005 form, the new head of the National Assembly Mining Commission, Arnoldo Aviles (a representative from the Nationalist Party), solicited suggestions for modifications to the draft law in a move to appease the new Zelaya Administration, which had promised during its campaign to ban open-pit mining.

13. (U) Unfortunately for Aviles, he inadvertently opened a Pandora's Box of anti-mining propaganda by resubmitting the reforms to debate. The political left and civil society - formed of politicians from the Union Democratica (UD) Party,

certain NGOs, and the renegade Archbishop Santos of Copan - began shrilly accusing both the mining companies and Aviles of corruption, environmental destruction and sale of the Honduran patrimony. News stories began to appear accusing mining companies of unsafe environmental practices, targeting, in particular, Glamis Gold's Honduran subsidiary, Entremares (see Ref A). (Comment. To place a half page article in a Honduran newspaper usually involves a payment of several thousand dollars to the publisher. Similarly, simultaneous street protests at several sites in Honduras -- including bus transportation, meals, and cash payments to protesters for their participation -- are quite expensive undertakings. Many observers, including Minister of Defense Aristedes Mejia, have openly speculated that the civil society groups, in particular CAFOD and Caritas, which placed these articles and organized these protests must have received significant foreign financing. End comment.)

¶4. (U) The vitriolic anti-mining rhetoric has distracted attention from the real issue -- improving the Honduran government's institutional capacity to enforce environmental regulations -- and instead seeks to vilify mining in general. The lack of well-trained personnel is a constant challenge throughout the Honduran government, including for the Ministry of Environment (SERNA), the agency responsible for mining oversight. Real discussions had begun on resolving training/personnel and technical issues before the political left polarized the debate. SERNA does not have a laboratory adequate to its monitoring duties. For example, according to Congressman Aviles, that lab cannot distinguish between cyanide (used in gold mining) and other sulfides (many naturally occurring). Lumping these very distinct substances together, the lab therefore recently published absurdly high "cyanide" readings for a mine inspection, which opponents then cited as proof the company was "poisoning" the local

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town. Although the mining authority (DEFOMIN) has an agreement with ALS Laboratories of Canada to analyze samples collected in Honduras, such clarifications often come long after the damaging headlines and protests have had their effect.

¶5. (C) Nor has the mining industry done itself a good service. The Honduran mining association (ANAMIMH) and managers of Entremares and Mayan Gold (both partly U.S.-owned companies) have admitted to econoff that they have not mounted a sufficient public relations campaign to tout the benefits mining brings to the Honduran economy, including employment, technology transfer and technical training, and tax revenues. Outreach to the GOH has been spotty at best, as they complain that their access to the Minister of Environment Mayra Mejia and Arnoldo Aviles has been extremely limited. They believe that both officials, but especially Minister Mejia, are simply capitulating to President Zelaya's penchant for endorsing whatever policy appears to be popular at the moment. While Aviles claims to consult with the firms regularly, the firms report they have received no invitations to testify in National Assembly debates on mining. Archbishop Luis Alfonso Santos, a left-wing firebrand viscerally opposed to mining and responsible for protests that include closing national highways, is reportedly invited to every Congressional mining debate. Mining industry representatives have also commented that Minister Mejia has met with Archbishop Santos on several occasions, while limiting her contact with the mining companies.

¶6. (C) Entremares, country manager Eduardo Villacorta told econoff that his last meeting with Mejia, during the week of September 10-17, was largely unproductive. This was the first time Mejia met with any representative of the mining industry in over 3 months. The only concession she gave was that SERNA would not cancel Entremares' mining license. (Comment. That Mejia would give such an assurance after joining Archbishop Santos in defaming and accusing Entremares

of pollution and causing birth defects in local children in the press exposes the current anti-mining campaign for what it really is: a populist political ploy by the ruling Liberal Party, the UD and Archbishop Santos. End comment.)

¶7. (SBU) The political left is proposing the following additions to the reforms agreed to in November 2005: banning open-pit mining of gold and silver; eliminating tax breaks destined to alleviate the cost of depreciating equipment; raising the tax on gross income from the two percent agreed to in November to three percent (or roughly 17 percent of net income); and establishing a list of 18 triggers, any one of which could be invoked to cancel a company's mining license. These reforms would likely halt new exploration and mining and could push newer operations in Honduras to pull out by making operations uneconomical. Additionally, although most of the 18 triggers deal with non-payment of financial obligations or violations of environmental regulations, they also include some provisions that are vague or could be arbitrarily applied, for example cancellation "due to judicial order" or "due to incompleteness of work within the terms established in the law or unauthorized suspension of activity for more than six months continuously." Post expressed its concerns to Aviles that these regulations do not appear to be transparent and impartial and questioned whether they comply with Honduras' obligations under CAFTA to establish environmental regulations that provide clear guidance to businesses, level the playing field and provide for effective and impartial enforcement.

¶8. (C) Comment: Post also finds it very suspicious that only gold and silver mines were singled out for the ban. Gravel and aggregate mining is also carried out in Honduras through open-pit mining. If the concern was truly over the method of mining -- instead of the refinement using cyanide-leach heaps -- then all open-pit mining should have been banned. A complete ban on open-pit mining is impractical, however, as it would bring construction to a standstill since supplies of sand and gravel are invariably open-pit mined. Moreover, such a broad ban would be politically difficult, since certain wealthy Hondurans (such as Liberal Party power Jaime Rosenthal) have gravel and concrete operations that rely on open-pit techniques. Of greater concern is the possibility that gold and silver mines have been singled out because politically-powerful Hondurans intend to take over these potentially lucrative operations if or when the international mining community is chased out of or loses all interest in Honduras. End comment.

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¶9. (C) Post suggested to Aviles that the Congress focus on strengthening regulations and monitoring of leach-heap operations, rather than banning open pit mining entirely. Aviles agreed in principle, but expressed his conviction that there is no political will to seek such a reasonable outcome. "The industry has been demonized in the eyes of the public," he said. Trying to win this battle has been "like swimming upstream," Aviles said, "and eventually your arms drop and the current takes you." Aviles told Post he is too tired to continue a fight he is convinced he will lose. Better, he thought, to accept this law now and repeal it in a few years when a credible oversight mechanism has been established and passions have cooled. "What we do today, we can undo tomorrow," he said. That, we pointed out, is precisely what would-be investors fear.

¶10. (U) Political support for the agreement originally conceived in November 2005 is sparse. Mining Commission President Arnoldo Aviles told econoffs that even though Cardinal Andres Rodriguez and President of the National Assembly Roberto Micheletti have publicly favored the November 2005 agreement, most legislators are afraid of the consequences of crossing both President Zelaya and Archbishop Santos. (Note. Archbishop Santos organized anti-mining protests in July 2006 that blocked several key points of the

Honduran road system. Although Cardinal Rodriguez publicly reproached him for those actions, Santos continues to hold the threat of severe civil disobedience over the heads of politicians. End note.) Aviles believes that the only way to return to the consensus of November 2005 would be to convince President Zelaya to back off his support of an open-pit mining ban and instead endorse the original agreement.

¶11. (SBU) The efforts by the political left to conquer and decapitate mining in Honduras, ostensibly for environmental concerns, could paradoxically worsen environmental conditions in several areas of Honduras. U.S.-owned Mayan Gold is already suffering an invasion of part of its mine. The artisanal miners, numbering over 120 and actively supported by the local mayor and business leaders, are using mercury to extract gold from the ore they collect. The mine is located on a watershed that feeds into the Choluteca River, the primary river system in Southern Honduras. Shrimp farmers located near the mouth of the river are already noticing increasing levels of mercury in the water. (Note. When Caritas accused Mayan Gold of causing the pollution the Honduran Prosecutor for Environmental Crimes cleared them of wrong-doing, finding instead that the local miners had illegally invaded the land and were the source of the mercury poisoning. With the exception of a one-day show of force in which artesanial miners were rounded up and expelled or jailed for a few hours, the GOH has taken no actions to address either the ongoing theft or the unfolding environmental disaster. End note.) Given that there has been significant gold exploration and four operating gold mines in Honduras over the past six years, ANAMIMH fears this sort of behavior could spread to other current and potential mining sites, many of which are located near watersheds.

¶12. (C) Comment. The Honduran National Assembly most likely will incorporate changes to the national mining law that would severely harm current mining operations and kill the prospect of new investments in precious metals mining in Honduras. The full intent of these actions is murky. At a minimum this initiative is yet another example of political pandering. Post does not have evidence that this is a concerted effort to make space for local businesses to fill a gap left by retreating international companies. Post believes, and has explained to GOH officials, that the ultimate effects of adopting this anti-investment and politicized legislation will be to put the Honduran environment further at risk and to worsen an already shaky investment climate. End comment.

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